Rolling with the punches—the strength of the Swiss financial model

15/04/2016

Financial Services analysis: Eric Stupp, head of the financial services department at Bär & Karrer in Zurich, outlines the strength of the Swiss financial model, explaining why it continues to attract and sustain global business, despite recent scandals.

How has Switzerland sought to rebuild its reputation following the Swiss leaks scandal and other reputation-damaging revelations?

Switzerland is, and always has been, aware of the importance of an untarnished reputation. But in this current climate it is more important than ever.

One measure taken by Switzerland in order to cultivate a good reputation abroad is communication. The Swiss Government, for example, maintains an intense dialogue with all major foreign trading partners and is a member of international organisations, such as the OECD.

Despite the recent damaging revelations, Switzerland has a solid global standing and is well-positioned to make its voice heard. Recently, the country exercised this ability during the 2016 World Economic Forum in Davos and during the substantive nuclear talks between the USA and Iran in 2015, which took place in Geneva.

Finally, there are numerous lobbying groups, like the Swiss Bankers' Association, which are engaged in a dialogue with stakeholders in various countries in Europe, America and Asia. These peers can have a decisive impact on authorities in other countries, which in turn can have a positive perception on Switzerland and its business community.

Has there been any opening up of the nation's strict bank secrecy laws?

Bank-client confidentiality is still a cornerstone of the Swiss banking system and has, therefore, not disappeared. However, following the fallout from recent incidents, international standards have impacted the classic model of bank-client confidentiality. For example, introducing the concept of automatic information exchange between tax authorities. Switzerland has and continues to support such developments and is keen that all major financial centers apply these standards in order to safeguard a level playing field in the industry.

How are Swiss banking institutions seeking to court US, EU and Asian clients?

With the introduction of Foreign Account Tax Compliance Act (FATCA) in 2010, non-tax-compliant US clients should be a thing of the past. In terms of courting clients in the US, the large Swiss banks usually maintain a physical presence in the country in order to serve clients locally. Indeed, some Swiss financial intermediaries also hold a broker-dealer license from the Securities and Exchange Commission (SEC) in order to serve US clients.

In terms of the EU, Switzerland is not actually a Member State and is therefore treated as a 'third country'. Swiss banks have to have a deep understanding of the relevant financial and banking rules for every country within the EU in order to operate successfully. As a consequence, some banks have opened branches in EU countries in order to serve the local clientele.

With regards to China, meanwhile, Switzerland was able to become a Renminbi clearing hub and a large Chinese bank opened a branch in Zurich in autumn 2015.

Swiss banks still have a lot to offer to wealthy clients abroad: the high quality of services; the substantial investments the banks are making to improve the front-facing IT structure; access to asset management talents irrespective of where they reside; and diversification, which refers to the fact that Switzerland has its own currency and is an independent country that is fully connected through treaties to all major countries worldwide.

Could Switzerland's position and legal structure enable it to position itself as a safe haven for wealth in times of economic instability?

Switzerland is traditionally held to be a neutral country; one that is politically stable, financially secure, and, of course, diplomatic. The country is where it is today because of these crucial elements, which is why recent events, like the backlash from the much-publicised tax evasion scandals, have not fundamentally altered this perception.

Therefore, Switzerland will continue to be an attractive spot to hold and manage the assets of wealthy individuals. It has a deep-rooted service industry in the financial sector, a strong currency of its own and a predictable legal system. All of these are attractive features in a 'normal' economic climate, but are particularly attractive in times of relative economic instability. For these reasons and more, Switzerland's success in the field of private wealth management persists.

How has the UK's relationship with Switzerland developed over the past five years?

Switzerland and the UK have a good relationship, based in large part on the similarities of the two countries. Both are strong supporters of free trade, have exhibited scepticism in the face of excessive state intervention, and have a well-established service industry. Although the financial centres in both countries are, in some instances, competing against each other, there exist strong ties. Both large Swiss banks, for example, have a major presence in London.

Incidentally, there has been some speculation in recent years that the Swiss example gives credence to the idea of the UK successfully separating from the EU. However, we believe that a Brexit should not be defended with the argument that Switzerland is doing well without being a member of the EU. History must be taken into account, and it will probably be painful for the UK to build a network of treaties with major countries in order to establish a position similar to the one of Switzerland.

Interviewed by Giverny Tattersfield.

This article was first published on Lexis®PSL Financial Services on 15 April 2016. Click for a free trial of Lexis®PSL.

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